

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

Board actions – March 27, 2003

Federal chartering and field of membership rules improved

The NCUA Board, committed to the concept of consumer choice, issued comprehensive revisions to federal credit union chartering and field of membership rules based on four years of experience following passage of the 1998 *Credit Union Membership Access Act* (CUMAA). The new rules are effective May 15, 2003.

Based on experience, application parameters were standardized reducing regulatory burden and processing time. The revised rules also improve agency efficiency and appeal of the federal charter plus contribute to strengthening the safe, sound status of federal credit unions, federally insured credit unions, and the federal credit union system.

The revisions better enable federal credit unions to keep pace with the marketplace and maintain a vital, healthy dual chartering system. From passage of CUMAA in 1998 through October 2002, 29 new federal credit unions were chartered, 20 new state charters were issued and 143 federal credit unions converted from federal to state charters. Field of membership restrictions and opportunity were cited as the primary reasons a chartering decision was made by these credit unions.

In the past few years, state legislatures and regulatory agencies have greatly expanded field of membership rules in many states, leaving federal credit unions at a significant disadvantage. Public policy issues involved in making sure the federal charter remains healthy required NCUA to examine its field of membership rules to make sure they enable federal credit unions to meet their necessary business and service objectives while maintaining a strong federal charter.

Refer to the pullout on page 7 for specifics of the new chartering & field of member-

ship amendments and for how it may be helpful to your credit union.

MBL rule amendments issued for comment

The NCUA Board issued proposed revisions to Part 723, member business loans (MBLs), and related rule provisions within Part 702, prompt corrective action (PCA); Part 704, corporate credit union; and Part 712, credit union service organization (CUSO).

Issued with a 60-day comment period ending June 3, 2003, the proposed rule is designed to update and expand access to small business loans for credit union members, diversify risk, bring parity to federal and state MBL requirements within parameters of the *Federal Credit Union Act*, and continue to ensure the safety and soundness of federally insured credit union lending.

A few specifics of the proposed rule include:

- Exclude the purchase of a business loan participation interest from the calculation of a purchasing credit union's aggregate member business loan limit;
- Clarify that participation interests in loans sold without recourse will not count as member business loans;
- Extend the standard prompt corrective action risk-based net-worth component that presently divides the portfolio of member business loans by a single threshold of 12 ¼ percent to three tiers;
- Exempt certain member business vehicle loans from the 80 percent loan-to-value requirement, allowing for 100 percent financing for business-purpose vehicle loans; and
- Permit CUSOs to originate business loans.

April/May 2003 Number 1

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CUs have added 4.3 million potential members in underserved areas in 2003

Thirty-eight credit unions added 61 underserved areas resulting in 4.3 million potential members gaining access to financial service in the first three months of 2003.

Through March, most underserved areas were added by credit unions with assets of \$20 to \$50 million. These credit unions added 14 areas with 855,296 potential members comprising 19.7 percent of all potential members added through underserved areas. Texas credit unions led the way adding 11 underserved areas. Kentucky followed with five areas added.

News briefs

Risk-focused examination survey results are excellent – Federal credit unions returned 397 examination surveys in the first quarter of 2003 and ranked the quality of NCUA's risk-focused examination 4.5 or above from a possible 5 in response to all questions. The highest marks were given to examiners' courteous and professional conduct, effective overall examination process, and effective communication with management and officials throughout the examination.

Credit unions adopted 706 underserved areas, totaling 39.6 million potential new members in the last two years – A record 23.6 million new potential credit union members were added in 2002 as federal credit unions expanded service into underserved areas across the United States.

Conversion activity – Two federally insured state-chartered credit unions converted to federal charter, and nine federal credit unions converted to federally insured state-charters during the first quarter of 2003.

RegFlex credit unions topped 60 percent at yearend 2002 – 3,650, or 61 percent of federal credit unions are eligible for RegFlex, a NCUA designation reducing regulatory burden on well-capitalized, well-managed federal credit unions.

Financial relief and protection for active military – NCUA *Regulatory Alert 01-RA-14*, reminds credit unions that the *Soldiers' and Sailors' Civil Relief Act* provides financial relief, including discounted loan rates and legal protections for people on active duty.

Food drive thank you – NCUA received a letter of thanks from the Capital Area Foodbank for contributing more than 500 pounds of food during a recent White House USA Freedom Corp Administration food drive.

Dollar named FFIEC vice chairman



NCUA Chairman Dennis Dollar is the new vice chairman of the Federal Financial Institutions Examination Council (FFIEC) for a two-year term that began

April 1, 2003. James E. Gilleran, Director of the Office of Thrift Supervision, is the new chairman.

The Council was created by the Federal Financial Institutions Regulatory and Interest Rate Control Act of 1978 to promote uniformity in examination and supervisory policies and procedures in the supervision of financial institutions. The FFIEC is composed of the heads of the Federal Deposit Insurance Corporation, National Credit Union Administration, Office of Thrift Supervision, Office of the Comptroller of the Currency, and a member of the Federal Reserve Board.

NATIONAL CREDIT UNION ADMINISTRATION NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Dennis Dollar, Chairman
JoAnn Johnson, Vice Chair
Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting the Office of Public and Congressional Affairs, at 703-518-6330. The weekly Treasury-bill rates are available by calling 800-755-1030 or 703-518-6339.

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April 23, 2003, Alexandria, Va. – NCUA Chairman Dennis Dollar with Gillian Coulter, executive director of the Campus Credit Union Council, as the Chairman signs a letter to credit unions announcing that NCUA will once again be supporting a Summer Student Intern Program administered through the Community Development Revolving Loan Fund. Designed to assist credit unions and introduce promising students to the opportunities within the credit union movement, the program provides a \$2,500 internship stipend to support each student who works in a credit union over the summer. See Letter to Federal Credit Unions No. 03-FCU-03 for details.

Board actions – April 24, 2003

NCUA's Operating Fund, Share Insurance Fund, Central Liquidity Facility and Community Development Revolving Loan Program each received unqualified opinions on 2002 financial statements from independent auditor Deloitte & Touche LLP.

First quarter 2003 NCUSIF report

The National Credit Union Share Insurance Fund (NCUSIF) ended the first quarter of 2003 with a 1.31 percent equity ratio, after beginning the quarter at 1.27 percent, because of an influx of funds from share insurance deposit adjustments. The equity ratio is projected to be 1.26 percent at yearend 2003 based on expected, near double-digit share growth and a low number of closures. In the first three months of 2003, two credit unions failed costing the Fund \$140,000.

NCUSIF gross income was \$44.6 million in the first three months of 2003, operating expenses were \$20.2 million, insurance losses were \$6.8 million due to increasing fund reserves, and net income was \$17.5 million as revenue and expenses closely tracked projections.

NCUA sign and advertising statement requirements revised

The NCUA Board approved revisions to Part 740 to update and clarify the regulation and address Internet placement of NCUA's official insurance sign and the use of trade names in advertising. In response to public comments, the rule permits credit unions to vary the font size of the official signs on websites and to use official signs in colors other than the traditional blue and white.

The revisions also clarify that the use of trade names or names other than the official charter name is permissible, except in communications with NCUA and in legal documents such as consumer disclosures, contracts, titles or liens.

Additionally, the rule clarifies that federally insured credit unions must display the official advertising statement on their website home page and the official sign on a sign-in page where a member enters the credit unions transactional website to open an account, deposit or transfer funds. The rule is effective 60 days after publication in the Federal Register.

Revisions clarify rule and permissible investments to fund employee benefits

The NCUA Board issued a final rule amending Section 701.19 of the *NCUA Rules & Regulations*, permitting federal credit unions to provide reasonable retirement benefits for employees and officers. The amendments clarify the scope of the rule and the investments the federal credit union may use to fund employee benefits.

Overseas branching rules established and insurance coverage addressed

The NCUA Board approved final rule Part 741 establishing requirements for federally insured credit unions to branch outside the United States after considering the legal issues, supervision and examination considerations and options for insuring member accounts at foreign branches.

The final rule, effective July 1, 2003, requires credit unions to develop a comprehensive business plan and receive foreign government and NCUA approval prior to establishing a branch outside the United States. State-chartered credit unions also must obtain state regulator approval. The final rule also addresses insurance coverage at foreign branches.

A three-step process was established for applicants that wish to branch outside the United States.

1. A credit union must receive written approval from the host country to establish the branch that recognizes NCUA's authority to examine and take any enforcement action with regard to that branch office, including conservatorship and liquidation action.
2. The credit union must develop a specific, comprehensive business plan and be knowledgeable of local overseas employment laws.
3. A state-chartered credit union must submit documentation showing state

regulator approval. However, because of risk to the NCUSIF, the NCUA must have the final authority to approve or disapprove a foreign branch.

NCUA regional directors have 60 days to act on the application and may revoke approval for failure to follow the business plan. NCUA's concurrence is unnecessary if a state regulator wishes to revoke approval of a foreign branch; however, the state regulator must notify NCUA of revocation.

Member accounts are insured by the NCUSIF at federally insured credit unions outside the United States only if denominated in U.S. dollars and only if payable, by the term of the account agreement, at a U.S. office of the credit union. If the host country requires insurance from its own system, accounts would not be insured by the NCUSIF.

Chartering activity Charter expansion

The NCUA Board approved, by a two to one vote, the request of \$158 million **Tooele Federal Credit Union**, Tooele, Utah, to expand its community charter to serve the people who live, work, worship, work, attend school, businesses and other legal entities located in Davis, Morgan, Salt Lake, Summit and Weber Counties in Utah.

Charter conversions

The NCUA Board approved the request from \$469.4 million **Aberdeen Proving Ground Federal Credit Union**, Aberdeen, Md., to convert from a multiple-group to a community charter able to serve the people who live, work, worship, attend school, businesses and other legal entities in Harford and Cecil Counties, Maryland.

The NCUA Board approved the request from \$781 million **Members 1st Federal Credit Union**, Mechanicsburg, Pa., to convert from a multiple-group to a community charter able to serve the people who live, work, worship, attend school, businesses and other legal entities in the south central Pennsylvania counties of Adams, Dauphin, Lebanon, Perry, York and Cumberland and the entire Borough of Shippensburg.



Who and What: Board Member Deborah Matz will participate in the Ford Foundation's Credit Union Conference.

When: 9:30 a.m., May 13, 2003

Where: New York City, N.Y.

Why: Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov

Who and What: Board Member Deborah Matz will address the Kentucky CU League.

When: 6:30 p.m., Tuesday, May 13, 2003

Where: Crystal Gateway Marriott, Alexandria, Va.

Why: Board Member Matz will share her insight about the future of the Credit Union movement. Participant feedback will be solicited on NCUA initiatives and policies.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov

Who and What: Chairman Dennis Dolar will speak at the Missouri Credit Union Association's Annual Meeting.

When: Thursday morning, May 15, 2003

Where: Tan-Tar-A Resort, Osage Beach, Mo.

Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.

Contact: Nicholas Owens at 703 518-6336 or nowens@ncua.gov.

Who and What: Vice Chair JoAnn Johnson will address the New York Credit Union League Metropolitan District Meeting.

When: Thursday, May 15, 2003

Where: New York, N.Y.

Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov

Who and What: Board Member Deborah Matz will meet with members of the Ohio CU League and Member of the US House of Representatives Marcy Kaptur.

When: 5 p.m., Wednesday, May 21, 2003

Where: Longworth House Office Building, Washington, D.C.

Why: Board Member Matz will share her insight about the future of the Credit Union movement. Participant feedback will be solicited on NCUA initiatives and policies.

Contact: Patty Jenkins at 703-518-6318, or pjenkins@ncua.gov

Who and What: Chairman Dennis Dolar will speak at the Michigan Credit Union Association's Annual Meeting.

When: 12:30 p.m., Thursday, May 29, 2003

Where: Amway Grand Plaza, Grand Rapids, Mich.

Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.

Contact: Nicholas Owens at 703 518-6336 or nowens@ncua.gov.

Who and What: Vice Chair JoAnn Johnson will address the 7th Annual Women's Leadership Symposium.

When: Thursday, May 29, 2003

Where: Pinehurst, N.C.

Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov

Assistance programs available for CDCUs

The Department of Treasury's Community Development Financial Institutions Fund (Fund) invests in and supports community-based organizations that offer financial services to communities and populations lacking access to credit and financial services. The Fund has invested approximately \$37 million in credit unions since its inception more than six years ago.

Credit unions can apply for the following four types of Fund programs:

- 1. Certification/Recertification.** The Fund certifies organizations as Community Development Financial Institutions (CDFIs). Credit unions can apply for CDFI certification year-round.
- 2. Financial Assistance Component Program.** This program provides funding for certified CDFIs to implement a comprehensive business plan enabling community development in underserved areas. Capital awards include grants, loans, equity, and deposits/shares. The application deadline was in April.
- 3. Technical Assistance Component Program.** This program addresses the financial and operational needs of CDFIs, or proposed CDFIs that previously received less than \$250,000 in assistance from the Fund.

Technical assistance awards of up to \$50,000 cover training for management, program development, products and services, improvements to financial management and internal operations. CDFIs serving or proposing to serve Native Americans, Alaska Native, or Native Hawaiian communities can receive up to \$100,000. The Fund encourages organizations to apply early, prior to May 31, 2004.

- 4. Native American CDFI Development Program.** The newly revised program provides funding for entities that plan to create CDFIs to principally serve Native Americans, Alaska Native, and/or Native Hawaiian communities. The application deadline for this program is May 31, 2004.

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Vice Chair Johnson explains member business lending proposal, invites comments

NCUA Vice Chair JoAnn Johnson explained the NCUA Board's action in issuing a new proposed rule affecting member business lending at the Virginia Credit Union League's 69th Annual Meeting in Norfolk, Va., April 4th.

Johnson began by encouraging comments from the credit union community, then detailed her initiatives on behalf of the member business lending regulation and described how it aligns with President Bush's plan to strengthen small businesses.

"Small businesses are the backbone of our nation's economy," Johnson said. "The President's initiative will benefit small businesses for years to come by reducing taxes, encouraging investment, and removing obstacles to growth. My desire in reviewing and proposing changes to the member business lending regulation, while remaining within the confines of the statute, is to ensure that credit unions are able to meet the financing needs of their small business owner members."

Among other things, the proposed credit union member business loan rule would:

1) Improve the way NCUA classifies the purchase and sale of loan participations;

2) Allow unsecured member business loans within established limits;

3) Change business loan policy to allow credit unions to adopt analysis and documentation requirements that are appropriate for the specific types of loans made rather than the current one-size-fits-all approach; and

4) Allow credit union service organizations to originate member business loans.

"It is important to point out that while the board is proposing changes to the member business lending regulation, we maintain the high standards of expected business management and safety and soundness," Vice Chair Johnson said in recommending the changes. "I urge credit unions to take the time to review the proposal and provide your comments to us by June 3. It is important that, as regulators, we hear from the credit unions that are impacted by the regulations we enforce."

Chairman Dennis Dollar commended both his colleagues for their "keen focus" on updating this regulation when the proposal was being considered at the March 27th Board meeting.

Maura Hampton becomes top aide to Vice Chair Johnson



NCUA Vice Chair JoAnn Johnson selected Maura M. Hampton as executive assistant, replacing former top aide Julie A. Starnes who resigned to return to Iowa.

Hampton has more than ten years experience in the credit union and financial services industry. Most recently, she was manager of Legislative Affairs at the Credit Union National Association (CUNA) in Washington, DC. Prior to joining CUNA in 1997, Hampton was a senior legislative advisor on banking issues for Congressman Frank D. Lucas (R-OK), a member of the House Financial Services Committee. Hampton's Capitol Hill service began in 1993 with Congressman Alex McMillan (R-NC) following two years as a human resources specialist.

During her tenure with Congressman Lucas, whose district includes much of Oklahoma City, Hampton played a pivotal role in congressional relief efforts for victims of the Oklahoma City bombing. She assisted in drafting legislation that provided trial coverage to bombing victims of the McVeigh-Nichols trial.

Hampton holds a B.A. in International Studies from Virginia Tech.

April 22, 2003, Alexandria, Va. – Vice Chair JoAnn Johnson reads to second graders at Jefferson - Houston Elementary School while State Department Federal Credit Union CEO John Adkin shows the illustrations. Vice Chair Johnson is participating in the State Department Federal Credit Union Financial Literacy program at Jefferson-Houston Elementary School.

NCUA officially adopted this local elementary school several years ago and many NCUA staff members tutor here weekly.



Board Member Matz introduces PALS initiative

Credit unions have a new way to share success stories and learn how others



have dealt with common problems through Partnering and Leadership Successes (PALS), a new initiative introduced by NCUA Board Member Debbie Matz.

PALS is the umbrella for a series of workshops on a wide range of issues in locations across the nation. The first PALS workshop, held April 1 in San Francisco, promoted partnerships between credit unions and the Neighborhood Reinvestment Corporation (NRC). At the workshop, the NCUA and NRC unveiled a joint, 28-page publication, *Credit Union Partnerships With NeighborWorks® Organizations: Proven*

Models for Success. It features eight case studies of successful collaborations demonstrating how credit unions and NeighborWorks® organizations have worked together to provide financial literacy training and low-cost mortgages to people with low or moderate incomes.

"Credit unions can provide new and improved services to members, attract new members and receive deposits from community-based organizations as a result of these collaborative efforts," said Board Member Matz, NCUA's representative on the NRC Board. "The NRC is affiliated with more than 200 community organizations that make up the NeighborWorks® network, and credit unions and NeighborWorks® organizations are perfect partners. Both credit unions and NeighborWorks® organizations are not-for-profit, governed by volunteer boards of directors and provide services to discrete populations," Matz noted.

Upcoming PALS meetings

On July 8, the North Carolina, South Carolina, Georgia and Alabama Credit Union Leagues are cosponsoring, with Board Member Matz, a PALS workshop in Durham - *Making the Latino Connec-*

tion: A PALS Workshop for Credit Unions. It will address the financial service needs of the Hispanic community as well as techniques to market successfully to this population. Member business lending and the Small Business Administration 7(a) loan guarantee program will be the subject of a PALS workshop planned for October.

These workshops are open to everyone. If you are interested in attending or would like more information, please contact Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

Share Successful Service Programs

In addition to workshops, a PALS web site (http://www.ncua.gov/org/ncua_board/PALS/Index.htm) has been launched so credit unions will be able to share their best practices for improving member service and for reaching out to everyone within their fields of membership. The PALS site will establish a central network where credit unions can share successful programs and initiatives and fellow credit unions can tap into the experiences of those who have faced similar challenges.

Credit unions are invited to share successful initiatives by sending a link to pjenkins@ncua.gov.



January 15, 2003, Durham, N.C. – Board Member Deborah Matz at the grand opening celebration of Generations Federal Credit Union. From the left are Jerri Lattimore, administrator, North Carolina Credit Union Division; North Carolina Congressman David Price; Tanya Branch, chairman of the board, Generations FCU; Harvey Heartley, CEO, Generations FCU; Deborah Matz; and Linwood Cox, president, North Carolina Minority Support Center.

Assistance programs

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The Notice of Funds Availability, applications, and regulations for these fund initiatives can be found at: <http://www.cdfifund.gov/applications/index.asp>. The Fund's regulations include a requirement to consult with the financial institution's regulators during the review process to ensure that assistance is given to safe and sound institutions.

For further information about participation, please contact the Fund at 202-622-8662 or visit the Fund's website at www.cdfifund.gov.

Revisions to NCUA's Chartering & Field of Membership Rules

The NCUA Board, in March 2003, issued a comprehensive revision to federal credit union chartering and field of membership rules serving to:

- Standardize what constitutes a local community after years of experience reviewing charter applications since enactment of the Credit Union Membership Access Act of 1998.
- Offer a new trade, industry and profession option for single occupational common bond credit unions; and
- Make other improvements to the field of membership rules to ensure the federal charter remains a viable, safe and sound option within the dual credit union chartering system.

Effective May 15, 2003, the final rule changes, issued as *Interpretive Ruling & Policy Statement (IRPS) 03-1*, will –

- Standardize the agency's criteria for determining a community as follows:
 - A single political jurisdiction (township, city, or county) would meet the definition of a local community.
 - A metropolitan statistical area (MSA), or its equivalent, with less than 1 million residents, may qualify as a local community with a narrative description of community interaction from the credit union. An MSA with over 1 million residents requires significant documentation to demonstrate that it is a local community where residents interact and/or have common interests.
 - Multiple political jurisdictions, with less than 500,000 residents, also may qualify as a local community with a narrative description of community interaction from the credit union. A multiple political jurisdiction with over 500,000 residents requires significant documentation to demonstrate that it is a local community where residents interact and/or have common interests.
- Add a trade, industry or profession (TIP) designation to the type of groups eligible for a single common bond, occupational-based credit union. A TIP occupational charter would be based on employment in a narrowly defined, close-nexus trade, industry or professional group within the credit union's geographic service area.
- Eliminate outdated overlap protection requirements which have proven unworkable and unenforceable.
- Clarify the process of how to remove existing exclusionary clauses.
- Clarify that "service facilities" include wholly-owned ATMs and shared service facilities, if there is an ownership interest, for multiple-group credit union expansions.
- Clarify qualification requirements for associational charters.
- Clarify that national associations qualify for credit union service when the headquarters is within reasonable proximity to the credit union.
- Streamline additions to multiple group credit unions for employers with fewer than 3,000 potential members.
- Eliminate time-in-place restrictions on occupational, associational or multiple-group credit unions that wish to convert to another type of charter.
- Allow state-chartered credit unions converting to federal charters to retain groups added through emergency FOM provisions.

Link to the NCUA Chartering & Field of Membership IRPS 03-1 at
http://www.ncua.gov/news/proposed_regs/12cfrpart701-IRPS301.pdf



The Access Across America initiative is NCUA's re-statement of its commitment to promote and facilitate the extension of affordable financial services to individuals and communities across America. Access Across America is partnering with key federal departments and agencies to develop solid opportunities to aid communities across America with the resources and technical assistance to provide much needed financial services, affordable housing, and economic development opportunities.

These efforts are designed to counter the growing predatory lending problem in America. From the service of faith-based and other local credit unions in providing financial assistance for their communities to campus credit unions committed to instilling financial literacy at an age early enough to build upon, service to the underserved communities in our country has never been more important than now.

Access Across America seeks to bring results that demonstrate the value of economic empowerment to people from all walks of life. More details regarding this program can be found at www.accessacrossamerica.gov.

Expansions in Underserved Areas

All federal credit unions may include in their field of membership, without regard to location, communities meeting the definition of an underserved area. An underserved area may include the following: a Federal Empowerment Zone, Federal Enterprise Community, or a Designated Investment Area. Approximately 48.5 percent of all federal credit unions are located in investment areas. Many of the nation's "unbanked" popu-

lation can be found in these investment areas. Since 2001, credit unions have voluntarily adopted more than 39.6 million potential new members located in underserved areas into their fields of membership and have extended credit union services to those neighborhoods.

Faith-Based & Community Programs

Credit unions that have a religious organization as a primary sponsor are viewed as faith-based. Faith-based organizations have sponsored credit unions in the United States since the inception of the credit union movement. Currently there are over 400 faith-based federal credit unions with combined assets totaling more than \$2 billion. NCUA continues to promote the opportunities for chartering and expanding faith-based credit unions.

Low-Income Credit Unions

"Low-income" is an official NCUA designation granted to a credit union that serves a membership of which more than half of its members earn less than 80 percent of the average for all wage earners, or those members whose annual household income falls at or below 80 percent of the median household income for the nation. Currently, there are over 800 low-income credit unions (state and federally chartered) located across the country (including the territories). For a listing of low-income designated credit unions in your area go to www.ncua.gov.

One of the benefits provided to low-income credit unions is the ability to participate in the Community Development Revolving Loan Fund (Fund) programs. The Fund's objective is to foster community development through the improve-

ment of credit union operations and service to members and community.

Small Credit Union Program

The NCUA Board approved a national Small Credit Union Program (SCUP) in 1999. The purpose of SCUP is to facilitate the Board's goals of promoting the development of financially healthy small and low-income designated credit unions and encourage the formation of newly chartered credit unions. There are over 3,800 federally insured credit unions that fall within the SCUP criteria with over 841 credit unions actively participating in the Small Credit Union Program.

Partnerships with Other Organizations

The Access Across America Program is designed to partner with key federal agencies and other organizations to provide access to affordable financial services to underserved and low-income communities. Examples of partnership activities that have been fostered include:

- Corporation of National and Community Service: www.cns.gov
- Department of Agriculture: <http://www.rurdev.usda.gov/>
- Department of Housing and Urban Development: <http://www.hud.gov>
- Department of Treasury's Community Development Financial Institutions: <http://www.cdfifund.gov/>
- Federal Deposit Insurance Corp.: <http://www.fdic.gov/consumers/consumer/moneysmart/index.html>
- Internal Revenue Service (voluntary income tax assistance): <http://www.irs.gov>
- Neighborhood Reinvestment Corporation: http://nw.org/network_home.asp
- Small Business Administration: <http://www.sba.gov/>
- White House Office of Faith-Based and Community Initiatives: <http://www.whitehouse.gov/government/fbci/>

Legislative update

Congress reconsiders last year's unfinished business

Since January, Congress has taken up many issues of interest to the credit union industry left unfinished last year. Bills that would ease the regulatory burdens on credit unions and increase the insurance levels on members' deposits have been introduced. And the House of Representatives recently approved bankruptcy reform legislation for the sixth time in as many years.

Deposit insurance

Rep. Spencer Bachus (R-AL), chairman of the House Financial Services Subcommittee on Financial Institutions and Consumer Credit, introduced legislation (H.R. 522) that would increase the deposit and share insurance coverage for federally insured bank and credit union deposits from \$100,000 to \$130,000 as well as increase the insurance coverage for certain retirement accounts to \$260,000. On April 2, the full House approved the legislation 411-11. Senate Banking Committee member Tim Johnson (D-SD) introduced a similar measure (S. 229) in the Senate, and the Senate Banking Committee held a hearing on the legislation in February.

Regulatory relief

House Financial Services Committee Member Representatives Shelley Moore-Capito (R-WV) and Mike Ross (D-AR) introduced legislation (H.R. 1375) that would lessen the regulatory burden on insured depository institutions and improve productivity. The legislation, similar to the bill introduced last year, includes NCUA suggestions as outlined in Chairman Dollar's testimony.

The House Financial Services Subcommittee on Financial Institutions held a hearing March 27 where Chairman Dollar presented testimony supporting the legislation. For details, see the article – Chairman Dollar testimony supports regulatory relief – on page 14. Access the

Chairman's testimony at <http://www.ncua.gov/news/speeches/2003/Dollar03-0327.htm>

The House Financial Institutions and Consumer Credit Subcommittee approved the legislation April 9, and sent it to the full committee.

Bankruptcy reform

Meanwhile, the House approved legislation (H.R. 965) to reform the bankruptcy laws. The legislation includes an amendment sponsored by Representatives Pat Toomey (R-PA) and Brad Sherman (D-CA) that would revise the laws with respect to the termination and netting of financial contracts for federally insured credit unions. The amendment clarifies the rights of the parties involved in a derivative contract and the treatment of that contract in the event of a counterparty failure. The amendment also clarifies NCUA's role as the conservator of a failed credit union by allowing NCUA to transfer such contracts to a new solvent party.

Senate Judiciary Committee Chairman Orrin Hatch (R-UT) has indicated he will bypass the Committee process and take the House-passed legislation directly to the Senate floor for consideration.

Individual development accounts

NCUA is also monitoring the progress of legislation that would expand credit union participation in individual development accounts and allow credit unions to provide investment advice to pension plan participants.

2004 appropriations

The House and Senate Appropriations committees have begun their work on FY 2004 appropriations relating to the funding of the Central Liquidity Facility and the Community Development Revolving Loan Fund.

NCUA submits CLF and CDRLF testimony

NCUA recommends \$2 million for the CDRLF in 2004

Chairman Dennis Dollar submitted written testimony in early April to both the House and Senate VA, HUD and Independent Agencies Appropriations Subcommittees, requesting fiscal year 2004 funding of \$2 million for the Community Development Revolving Loan Fund (CDRLF), \$1.5 billion borrowing authority for NCUA's Central Liquidity Facility (CLF), and a slight increase in CLF operating expenses.

Chairman Dollar recommended a \$2 million rather than last year's \$1 million funding appropriation for the Community Development Revolving Loan Fund (CDRLF), stating the increased appropriation "could provide the CDRLF program an even greater ability to further the growth and long-term viability of credit unions in low-income and underserved areas."

Over the years, Congress has increased the amount available for CDRLF loans to \$13 million. NCUA has administered the revolving loan program for more than 13 years and has provided more than 217 loans totaling \$32.8 million. And, since 1992 the NCUA Board has funded technical assistance grants by using the interest generated from CDRLF loans. In fiscal year 2001, Congress recognized the success of the grant program by designating a portion of appropriation funds specifically for this part of the CDRLF program.

To date, the CDRLF technical assistance grant program has provided more than 1,000 grants totaling \$2.4 million. Chairman Dollar's testimony is available on the WWW at <http://www.ncua.gov/news/speeches/2003/Dollar03-0403.pdf>

FinCEN information requests reinstated, guidance available

NCUA issued *Regulatory Alert 03-RA-03* to inform federally insured credit unions that the Financial Crimes Enforcement Network (FinCEN) reinstated information requests associated with section 314(a) of the *USA Patriot Act* and to provide guidance for handling the requests.

NCUA, other regulatory agencies and federal law enforcement have implemented a new information request process and developed guidance. It is essential credit unions comply with these information requests. Failure to do so violates the *Bank Secrecy Act*.

Beginning with the March 31, 2003, call report, all credit unions must provide a specific contact's e-mail address or fax

number in order to receive the information requests and comply with required searches.

Changes to the request process include the following:

- 314(a) requests from FinCEN will be batched and issued every two weeks, unless otherwise indicated.
- After receiving a 314(a) request, financial institutions have two weeks, rather than one week, to complete searches and respond with any matches.
- Searches are limited to specific records and are a one-time search, unless otherwise noted.
- If a financial institution identifies a

match for a named subject, the institution need only respond to FinCEN that it has a match and provide point-of-contact information for the requesting law enforcement agency to follow-up directly with the institution.

Please contact the appropriate regional office, examiner, or state supervisory authority with any questions. The FinCEN Regulatory Helpline is 1-800-949-2732.

Regulatory Alert 03-RA-03 is available on the Internet at http://www.ncua.gov/ref/reg_alerts/2003/03-RA-03.htm

Relevant publications

Credit Union Partnerships With NeighborWorks® Organizations:

Proven Models for Success features eight case studies of successful collaborations demonstrating how credit unions and NeighborWorks® organizations have worked together to provide financial literacy training and low-cost mortgages to people with low or moderate incomes.

The case studies are available on the NCUA PALS web site at http://www.ncua.gov/org/ncua_board/PALS/Index.htm

NCUA Regulatory Alert No: 03-RA-04 announced FinCEN's semiannual publication, the *SAR Activity Review*, which provides feedback about the suspicious activity financial institutions reported to FinCEN. It offers tips and guidance on form preparation and filing, and examples of cases in which SAR information played an important role in investigation and prosecution of criminal financial activity and terrorist financing methods.

The *SAR Activity Review* is on FinCEN's Web site at: <http://www.fincen.gov/sarreviewissue5.pdf>.

NCUA Letter to Credit Unions No: 03-CU-04 introduces changes to the **CAMEL rating system**, the internal tool NCUA uses to assess a credit union's financial condition and operation in the areas of capital adequacy, asset quality, management, earnings, and asset/liability management.

The agency issued the letter in March to provide comprehensive details of the NCUA evaluation system and the revisions being made to CAMEL in response to economic and regulatory changes and the new risk-focused examination process. Find the latest CAMEL Letter to Credit Unions at <http://www.ncua.gov/Ref/letters/2003/03-CU-04.pdf>

Identity Theft is a new consumer protection booklet that explains common sense precautions people should take to protect their personal information and how to monitor for signs of identity theft. It offers a guide for consumers whose identities have been stolen. Contact information includes national credit bureaus, federal agencies that can provide help and nonprofit organizations that advise consumers and businesses.

Obtain a free copy or purchase multiple copies of *Identity Theft* from the Federal Reserve Bank of Boston at 1-800-409-1333. The publication is also available on the Bank's public website: <http://www.bos.frb.org/consumer/identity/index.htm>

Information Security Booklet is revised information security guidance issued by the Federal Financial Institutions Examination Council (FFIEC) to help identify information security risks, evaluate controls and ensure adequate security practices protect the privacy of customer information.

The new booklet describes how institutions should protect and secure systems and facilities that process and maintain information. It begins a series of updates to the 1996 *FFIEC Information Systems (IS) Examination Handbook* designed to address significant technology changes and incorporate a risk-based examination approach.

The *Information Security Booklet* is available at http://www.ffiec.gov/ffiecinfobase/html_pages/it_01.html

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NCUA management changes

Mark Treichel named Region I director



Deputy Executive Director Mark Treichel was selected to replace Layne Bumgardner, who retired April 3, 2003, as director of the NCUA Region I office in Albany, New York.

As the Region I director, Treichel will be responsible for managing NCUA's supervision and examination program for the federal credit unions in Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont.

With 12 years management experience in over 16 years at NCUA, Treichel has worked in three different regions and held two positions in central office. His career began as a Region V examiner in

1986. He quickly advanced as a problem case officer and supervisory examiner and served as director of Special Actions and Insurance in Region VI before named acting director of Risk Management in the headquarters office of Examination and Insurance. Treichel spent two years as an associate director in Region I before named deputy executive director in the central office in April 2000.

Treichel holds an accounting degree from the University of Minnesota-Twin Cities in Minneapolis. He will continue to serve as deputy executive director until a replacement is selected.

Region I Associate Regional Director of Programs Elizabeth Whitehead will serve as acting Region I director until Treichel assumes his new role within the next few weeks.

Jeffrey Steele named associate Region V director

Jeffrey Steele has been selected as the associate regional director of Programs (ARDP) in Austin, Texas, responsible for the Region V field program, which includes managing nearly 90 examiners.

Steele's NCUA career has advanced rapidly. In 1987, he joined NCUA as an examiner in Houston, Texas. In 1990, he was assigned to the Asset Management and Assistance Center, and in November 1991 he transferred to the headquarters Division of Risk Management within the Office of Examination and Insurance. In 1993, Steele became a supervisory examiner in New York, N.Y. and in 1995 he was named director of Special Actions in the Albany Region I office. Since 2000, Steele has served as deputy to the president of the Asset Management and Assistance Center in Austin, Texas.

Steele is a graduate of Southwest Texas State University with a B.B.A. degree in accounting. At NCUA, he was awarded Region I Supervisor of the Year in 1994 and Asset Management and Assistance Center Supervisor of the Year in 2000.

Edward P. Dupcak named Region II director



NCUA executive Edward P. Dupcak was selected director of the Region II office in Alexandria, Va., effective April 20, 2003.

As Region II director, Dupcak is responsible for coordinating the examination and supervision program for the federal and state-chartered, federally insured credit unions in Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and the District of Columbia.

Dupcak has extensive, diverse operations and leadership experience. For nearly eight years Dupcak has been director of the Office of Strategic Program Support and Planning (OSPSP) and he recently was named to the concurrent position of president of the Central Liquidity Facility.

During his 29 year history with NCUA, Dupcak has served as acting executive director of NCUA and associate regional director of Region II in Alexandria. He joined NCUA in 1974 as an examiner in New York and moved to central office in 1979 as a staff member of the Central Liquidity Facility. Dupcak was an investment officer and the director of Risk Management within the Office of Examination and Insurance. In April 1995, he was named director of the Office of Investment Services, renamed OSPSP in 2002 to reflect its expanded mission.

Dupcak is a 1968 graduate of Syracuse University with a B.A. in economics. In 1971, he received an MBA in finance and accounting from Long Island University.

Michael J. McKenna named NCUA deputy executive director

Senior Staff Attorney Michael J. McKenna has been selected to serve as NCUA's deputy executive director responsible for assisting the executive director administer the day-to-day operations of the agency's entire staff effective May 15, 2003.

During his 14 years with NCUA, McKenna has participated in the formation of a number of significant agency regulations, including member business loans, troubled credit union appraisals and foreign branching. McKenna currently chairs the Field of Membership (FOM) Task Force. He was instrumental

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About investments

Know your broker before investing

When purchasing investments through a third party broker, federal credit unions must use either a SEC registered broker-dealer or the brokerage services of a federally regulated depository institution. Before investing with a broker, perform background checks and due diligence on the sales representative (registered representative) and the firm (broker-dealer). Be sure to annually update this information.



Broker-dealers come in various types and sizes, including national (primary) brokerage firms, regional (mid-size) firms and smaller brokerage firms. Included in the mix are brokerage credit union service organizations (CUSOs) owned by one or more corporate credit unions. Generally, larger brokerage firms provide customers with confirmation and clearing services and are termed "full-service brokers." In comparison, smaller brokerage firms typically use a larger firm to clear transactions.

Credit unions should only deal with financially sound, reputable brokers-dealers. Regardless of size, it is important your broker-dealer is in a strong, adequately capitalized financial position because you entrust it with credit union money to settle transactions. Similarly, it is important your investment custodian (safekeeper) has a strong capital position because you entrust it with safeguarding credit union investments.

To start the review process, it may be helpful to utilize three basic guidelines for selecting a trustworthy broker:

- 1) If an investment sounds too good to be true, it probably is – do not add any broker with an unbelievable story to your approved list;
- 2) If the broker cannot explain the benefits of an investment in plain English (e.g., why it fits your desired levels of credit risk, interest rate risk, and liquidity risk), do not place the broker on your approved list; and
- 3) If a broker says an investment will only be available for a short time, don't bite and get hooked.

Most importantly, do not deal with a broker-dealer until completely reviewing

its financial statements, conducting a background check and reviewing all references. If a broker passes your initial simple test, the next step is to conduct due diligence and approve the broker before making any investment.

Appropriate due diligence includes:

- 1) Check broker references to obtain investor experiences;
- 2) Conduct background checks. Obtain the Central Registration Depository (i.e., CRD) number from the sales representative and broker-dealer firm (if no CRD number exists, be cautious);
- 3) Access NASDs "Public Disclosure Program" and use the CRD numbers to obtain filing data for the sales representative and broker-dealer. Access NASD on the Internet at <http://www.NASDR.com> or the NASD Public Disclosure Hotline at 1-800-289-9999;
- 4) Review information about the broker from the Public Disclosure Program including current registrations, current and past employers, consumer complaints, criminal charges and convictions, pending civil actions and/or judicial orders, pending SEC investigations, bankruptcies, judgments and any terminations of employment;
- 5) Contact your state securities regulator by phone or Internet to determine any state disciplinary actions against the broker. You also can review the North American Securities Administrators Association (NASAA) web site at <http://www.NASAA.org> for state actions against brokers and;
- 6) Review financial information of broker-dealers to ensure they are financially sound and have adequate capital.

Finding a financially sound, trustworthy broker is an important part of the investment process, and the credit union board and management must choose wisely. By conducting appropriate due diligence of third party brokers in adherence with Part 703 of *NCUA Rules and Regulations*, FCUs may avoid potential pitfalls, from boiler-room investment scams (fraud) to bankruptcies of broker-dealers. Knowing your broker before investing is a best practice for the prudent investment manager whose goal is to pro-

tect credit union funds while providing a reasonable and appropriate risk adjusted return on investments.

Protection added to prevent CD broker fraud

NCUA is implementing new measures to strengthen the agency's oversight and enhance credit union protections against brokered CD fraud to prevent credit union losses from fraudulent investments.

Based on a three-month review of examination procedures, NCUA developed the following recommendations to fight fraudulent activities:

1. Credit unions will include on quarterly call reports the outstanding balances of CDs purchased through or from a broker-dealer.
2. NCUA will generate risk reports that identify credit unions with large concentrations of brokered CDs and significant increases in brokered CD portfolios.
3. The NCUA Examiner's Guide will be amended to improve the guidance provided to examiners on brokered CDs, particularly concerning due diligence reviews of brokers and safekeepers.
4. NCUA has enhanced investment workpapers in AIRES, NCUA's automated examination program, to assist examiners in reviewing brokered CDs.
5. NCUA will increase examiner training on brokered CDs to heighten awareness of the risks associated with such investments.

Take advantage of educational opportunities

Credit union board members and credit union management have a much more complex job than a few years ago. Many would benefit from educational opportunities, particularly in the area of risk assessment. Here are a few reasons to take a class.

- There is less economic and financial stability and a greater level of uncertainty than even a few years ago.
- All financial institutions, with a push from their regulators, are increasing their emphasis on risk assessment, monitoring and control.
- NCUA has shifted its emphasis to a risk-focused exam.

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About investments

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Greater knowledge of asset liability management, portfolio management, interest rate and credit risk, operational risk, income simulation and net economic value are now an integral part of running any financial institution.

If you are in the position to take a class, attend educational training sessions, or influence others in your credit union to attend, it would be a good time to do so. You and your credit union will benefit.

NCUA changes

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J. Owen Cole Jr. to lead OSPSP



NCUA Region II Associate Regional Director John Owen Cole Jr. has been named director of the Office of Strategic Program Support and Planning (OSPSP) effective June 24, 2003.

As OSPSP director, Cole is responsible for providing expertise in the areas of investment and portfolio management and strategic planning and will hold the concurrent position of president of the Central Liquidity Facility.

Cole was a vice president in the Treasury Division at Riggs National Bank in Washington D.C., before joining NCUA in 1993 as a corporate investment officer in the Office of Examination and Insurance (E&I). He held positions in the Office of Chief Economist and Office of Investment Services before promoted, in 1998, to director of Risk Management within E&I and vice president/treasurer of the Central Liquidity Facility. Cole was named Region II associate regional director of Operations in May 2002.

Owen Cole holds a B.A. degree in history from McDaniel College and an MBA in Finance and Investments from George Washington University. Additionally, he attended Trinity College of Wales for a year of undergraduate studies.

How to identify and manage web-linking risks

A large number of credit unions maintain sites on the World Wide Web. Some sites only provide information while others offer members the ability to actually perform financial transactions, such as paying bills or transferring funds between accounts.

Virtually every website contains "web links." A web link is a word, phrase, or image on a webpage that contains coding that will transport the viewer to a different part of the website or a completely different website by clicking the mouse.

While web links are a convenient and accepted tool in website design, their use can present certain risks. Generally, the primary risk posed by web linking is that viewers can become confused about whose website they are viewing and who is responsible for the information, products, and services available through that website.

NCUA and fellow financial regulators recently issued guidance to assist fi-

nancial institutions in identifying risks posed by the use of web links on their websites and to suggest a variety of risk management techniques institutions should use to mitigate risks. This guidance applies to institutions that develop and maintain their own websites, as well as institutions that use third-party service providers for this function.

This guidance was issued as *NCUA Letter to Credit Unions No: 03-CU-08* replacing *Letter 02-FCU-04*. It provides updated and expanded discussions regarding due diligence considerations for linked sites, use of disclaimers and disclosures (and the technology to deliver them), monitoring weblinking relationships, and managing service providers.

This and other information systems and technology (IS&T) guidance is available on the IS&T portion of NCUA's website at <http://www.ncua.gov/ref/IST>.

McKenna named DED

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in development of *Interpretive Ruling & Policy Statements 94-1, 99-1 and 03-1*.

McKenna also served on the Inter-agency Fair Lending Task Force, Foreign Branching Committee, and the Oversight Policy Board for the Office of Financial Institution Adjudication. During his career, he has worked closely with the NCUA Board and other senior agency officials. In 2001 and 2002, he served extended details as executive assistant to Board Members Bacino and Matz.

Prior to joining the NCUA General Counsel's Office in 1989, McKenna served in the US Army Judge Advocate Corps ending his tour of duty as an assistant staff judge advocate.

McKenna holds a B.A. in political science from SUNY-Binghamton, Binghamton, N.Y., and earned his juris doctor degree from American University, Washington College of Law.

Relevant publications

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Treasury's Specially Designated Nationals and Blocked Persons (SDN) list is constantly updated by Treasury's Office of Foreign Assets Control (OFAC). Orders to block or freeze the designated assets are effective immediately upon publication on OFAC's website.

NCUA Regulatory Alert NO: 03-RA-06 specifies credit unions should check the website list frequently or obtain the documents by calling the OFAC Fax-on-Demand Service at (202) 622-0077.

A list of all changes made to the SDN list this year is available at www.treas.gov/offices/enforcement/ofac/sdn/index.html.

NCUA will remind federally insured credit unions quarterly to check for periodic updates and amendments to this list at www.treas.gov/ofac.

Chairman Dollar testimony supports regulatory relief

Testifying March 27 on the proposed *Financial Services Regulatory Relief Act of 2003*, H.R. 1375, NCUA Chairman Dennis Dollar told members of the House Subcommittee on Financial Institutions and Consumer Credit that he is pleased to again offer recommendations to reduce regulatory burden on federally insured credit unions and improve productivity, and to suggest technical corrections to several statutes.

"This legislation will positively impact NCUA's ability to provide a safe and sound regulatory environment for America's credit unions in today's dynamic financial marketplace," Chairman Dollar said.

Regulatory relief and productivity improvements addressing statutory restrictions that now act to frustrate the delivery of financial services to federal credit unions (FCUs), technological advances, current public policy priorities, and market conditions form the basis for the following NCUA recommendations included in the legislation:

Check cashing, wire transfer and other money transfer services

Allow FCUs to provide check cashing and money transfer services to any-

one eligible to become a member in order to reach people without financial services.

Twelve-year maturity limit on loans

Eliminate maturity limits on loans, enabling FCUs to make loans for second homes, recreational vehicles and other purposes in accordance with conventional maturities that are commonly accepted in the market today.

One percent investment limit in CUSOs

Increase the investment limit from 1 to 3 percent in organizations providing service to credit unions and credit union members to ensure credit unions, via CUSOs, retain control over the quality of services they offer and the prices paid by the credit unions and their members.

Expand investment options

Remove federal credit union investment limitations and grant the NCUA Board authority to establish specific percentage limitations and investment grade standards to approve additional safe and sound conservative investments with a proven track record.

Voluntary merger authority

Allow voluntary mergers of healthy FCUs without requiring NCUA to con-

sider a spin-off if either group is over 3,000 members.

RegRelief from SEC registration requirements

Provide regulatory relief from the requirement that credit unions register with the Securities and Exchange Commission as broker/dealers when engaging in securities activities applicable to credit unions, which include third-party brokerage arrangements, sweep accounts, and certain safekeeping and custody activities.

Check Legislative update for additional information on pending legislation. Chairman Dollar's full testimony is on the Internet at <http://www.ncua.gov/news/speeches/2003/Dollar03-0327.htm>



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